

SOCIAL ENTREPRENEURSHIP REGULATION IN LOCAL CONTEXT

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ABSTRACT

The established system of social services for the population does not always meet modern market requirements. This paper is devoted to the analysis of social entrepreneurship regulation in Tyumen region (Russian Federation). Thus, 450 representatives of public and business sectors were interviewed at the end of 2017 within the research community «Social responsibility of business». Based on the received responses factors affecting the efficiency of commercial activities in the field of social entrepreneurship were determined. It was established that social enterprises do not consider the incentives to develop and improve, which leads to the increasing of gap between the producer and the consumer of social services. In the absence of competition, state institutions are not interested in quality products, because they have permanent and stable market. The authors describe the possibility of transition from non-profit organizations to commercial enterprises.

Keywords: Socially Responsible Business, Regulation at Regional Level, Commercial Activities, Local Evidence, Social Projects and Services, State-Level Regulation.

INTRODUCTION

Modern market strategy consists in “producing things that are desirable and in demand”, however, the social system still “sells what is actually produced”. As a result, the population is provided with poor, low-quality services, while public institutions are not interested in producing goods of high quality, as through the lack of competition, they enjoy constant and steady sales activity. Social enterprises have no incentives for development and improvement, which leads to the increasing gap between the producer and the customer in the field of social services (Carraher, Welsh & Svilokos, 2016; Durkin, 2016).

To address this issue, it is necessary to “establish a full-fledged social service market and introduce innovative social assistance” (Decree by the President of the RF, 2012), which would allow ensuring a competitive environment among producers of social services.

The non-profit sector represents one of the essential resources of the economic development of the country and today this resource is barely employed. Russian government sector is unable to secure qualitative social services; therefore, it is important that non-government non-profit organizations be involved into the social service sector.

There are more than 600 thousand of non-profit organizations in Russia functioning at local and federal levels. It makes 16.2% of the total number of legal entities. These organizations serve private households, the main function of which is to provide goods and services on non-market basis. They are financed by voluntary contributions, sponsor support and property incomes (Results of Russian Population Census, 2013).

Shaping a full-fledged market of social services and introducing the innovative forms of social assistance, thereby creating a competitive environment for social service providers, will

solve the problem of non-compliance of the social service system with the imposed requirements in Russia and worldwide (Frank, 2015).

The non-profit sector is one of the essential resources of economic development. At this point, this resource is not involved significantly (Rathi, Given & Forcier, 2016, Macedo, Pinho, and Silva, 2016; Farrell, 2015).

Social entrepreneurship is an innovative form of public sector development (Chell et al., 2016; Rawhouser, Cummings and Newbert, 2017; Knife, Haughton and Dixon, 2014). It contributes to the solution of socially significant problems by means of economic instruments. This in turn, helps to achieve the desired result at the lowest cost.

Entrepreneurs attach great importance to public institutions and the hierarchy, where everyone fills certain place. Their deep faith in social institutions plays a decisive role here. Coexisting, interacting and complementing democracy and capitalism make the private property not only the basis of free social entrepreneurship, but also the source of individual freedom. This leads to a hard conviction that any legislative act that affects social relations poses a potential threat to future liberties and should be resisted at pains (Banerji, 2017; Choi and Majumdar, 2014; Phillips et al., 2015).

The process of transition from non-profit organizations to commercial enterprises is reflected in Table 1.

Table 1 SOCIAL ENTREPRENEURSHIP SHAPING					
Traditional Non-Profit Organizations	Non-Profit Organizations, which Core Business is Profitable	Social Enterprises	Corporate Citizens	Corporate Enterprise with Social Responsibility at the Core	Traditional Commercial Enterprise
Goal – solving social problems			Goal – getting profit		
Principle of responsibility to partners			Principle of responsibility to owners		
Revenue is reinvested in social programs			Revenue is shared among the shareholders		

The subjects of social entrepreneurship are able and ready to be the voice of the area. The innumerable rules, hurdles call to entrepreneurs and the fact that decisions made by the supervisory bodies are not subject to appeal draw the ire of these subjects. Business can make a significant contribution to the implementation of economic policy of Russian social capitalism on a large scale with its new, time-honoured initiatives. The Government and Business together solve the pressing problems on behalf of society.

We consider social entrepreneurship as an activity carried out by the entrepreneur at his own risk to solve social problems by selling business and further reinvesting the profit.

The effective development of social sphere in regions is possible only in case of social entrepreneurship development. The top priority objective of the study is to analyse the socio-economic efficiency of social entrepreneurship in the context of regional development.

The aim of this study is to provide theoretical and methodological underpinnings and establish directions for social entrepreneurship regulation at regional level.

The objectives of the study are:

- To summarize theoretic approaches towards social entrepreneurship activity;
- To specify the tools of social entrepreneurship regulation;
- To identify regional conditions for regulating business activity in the field of social entrepreneurship.

RESEARCH METHODOLOGY

When carrying out the research with the purpose of identifying the conditions for social entrepreneurship regulation on the territory of Tyumen region, an expert survey involving two groups of respondents was conducted: state and public officials (245 persons) and business representatives (205 persons). To carry out the research, in-depth-interview-tool that enables gathering as much information as possible including individual opinions of respondents would be used (Simonov, Khamatkhanova and Peshkova, 2014).

All survey participants were represented by four groups:

- Entrepreneurs engaged into social service sphere (161 persons);
- Representatives of big business of Tyumen region as major “driving force” of economic development in the region (44 persons);
- Public officers supervising social objects (cultural, educational and healthcare institutions) (184 persons);
- Officers and servants exercising regulatory control over social business activity (61 persons).

SOCIAL ENTREPRENEURSHIP REGULATION IN THE REGION

Social entrepreneurship emerged in the late XX century and became a line between charity and business activity. Currently, there is no coherent theory on social entrepreneurship, notwithstanding the existing points of view and opinions on the problem. Practical experience has been gained to some extent—it appears to be quite diverse though random and unstructured.

The respondents involved into the in-depth interview gave different responses on the same questions. Their opinions differed: representatives of housing and utilities infrastructure and hotel business are extremely wary of investments in human resources believing it to be the state’s responsibility. Representatives of children recreation organizations, educational and healthcare institutions and mass media believe that business technologies should and can be introduced to social service sphere.

Regarding the respondents representing big businesses of Tyumen region, they demonstrated positive attitude towards human resources development. Most big business companies have already switched to and invested into human capital.

Representatives of government agencies understand that the private companies’ tendency to gain excess profit is long obsolete and it is time businesses focused on human factor. Officials say that since companies are unable to allocate high finances to social sphere, the task of officials is, thus, to create conditions for stimulating social entrepreneurship development in the region.

The respondents representing entrepreneurs, in their turn, believe that successful business activity in social sphere is possible; however, to ensure this, cash infusions on the part of the state are required. And although, as they say, Tyumen region is generally business attractive, it is quite difficult to do business in the social service sphere alone, without state’s participation.

Among the examples of social entrepreneurship in the region given by the respondents were private kindergartens, “alarm button” assistance service for senior citizens, additional education, charged medical services and children recreation projects. The participants of the survey marked that the most effective and developed social entrepreneurship in Tyumen region is observed in the field of children and family entertainment sector.

The research of tools of commercial business activities regulation in the field of social entrepreneurship on the territory of Tyumen region shows the Administration of Tyumen region is the main regulation entity carrying out the necessary policies with the help of the Department of Social Development, with public organizations being the objects of such regulation.

It should be noted that there is potential for social entrepreneurship development on the territory of Tyumen region, which can be efficiently used for settling social issues there. The situation in the region necessitates the application of new approaches towards social service sector development, in particular the introduction of public-private partnership, which is becoming one of the leading tools of social and economic development in Tyumen region.

First of all, it is necessary to create a legislative environment for the investment potential of business and those opportunities available in the area of non-profit organizations to be efficiently used for establishing social services and new social infrastructure. Quite a promising option to boost social entrepreneurship will be the creation of regional Centre for Social Sphere Innovations—a unique mechanism for ensuring effective and positive interaction and cooperation among all the participants of social initiatives, aggregation of leaders and projects of social importance, as well as setting new businesses in the social sphere (Hone, 1944).

Therefore, exactly the outlined partnership between the state and business sector in Tyumen region gives hopes for solving problems in the social service sphere and forms the basis of social entrepreneurship development in the region. The research conducted showed the consensus of the respondents on the fact that the entire business sector can be characterized as social as it targets on meeting the needs of the society. The division into “social” and “non-social” business is deemed and people sometimes don’t understand who it needs and what for. The division of businesses, as the study revealed, into commercial and non-commercial structures appears to be much more comprehensible.

There are the following fixed characteristics of social entrepreneurship:

Socially-oriented goal or mission;

1. Entrepreneurial nature;
2. Limited resources;
3. Project fulfilment rate;
4. Measurable results;
5. Strategy-based activity;
6. Financial stability.

The nature of the social entrepreneur’s performance is the main feature of commercial activity performed in the field of social entrepreneurship.

Austrian scientists have introduced the classification of social entrepreneurs (Table 2) (Weerawardena & Mort, 2006).

Table 2 CLASSIFICATION OF SOCIAL ENTREPRENEURS			
Features	All-Rounder	Constructivist	Engineer
Method of Solving Social Problems	At own efforts	Organization level	Social revolutions
Performance Scale	Local community	Big global problems that require strategy-based solutions	Federal level
Resource supplies	Local-level fund accumulation	The emphasis is laid on managerial solutions	Innovative fundraising

They often become the innovation engines because of the radical approach (in analogy with the Schumpeter's creative destruction). However, social engineers have hard time with scaling, if it involves not only the spread of ideas and regular changes, but also business scaling. After all, this requires not only the limited social capital to be attracted, but also the political capital and own illegitimacy to be struggled with (Tonysheva and Trofimova 2011).

There are the following capitalization paths for social entrepreneurship:

- Small-scale innovation-driven social entrepreneurship development;
- Socially responsible investment institutions development;
- Monetary and financial engineering in the social sphere.

Social entrepreneurship is a practice that is rapidly developing all over the world. The phenomenon of social entrepreneurship shows a new world, a new economic paradigm. It should be considered. We should make up our mind with regard to it. Russia has a chance to offer its vision of this practice and realize it.

Research Significance (Theoretical and Practical)

This research provides tools for regulating commercial activities in the field of social entrepreneurship, as well as recommendations for improving them.

We applied the methodology, introduced by the Our Future Fun, in order to determine the social effect of entrepreneurial activity. The social effect of social entrepreneurship projects can be divided into four types:

1. Job creation for socially unprotected citizens (employment of disabled people, mothers with many children, etc.).
2. Social adaptation of asocial or potentially asocial citizens (drug addicts, children from orphanages, etc.).
3. Social improvement in the region (opening the children's clubs, swimming pools, hospitals with preferential prices, etc.).
4. Rehabilitation of disabled people (creating conditions for normal life, recuperation programs).

Main accepted designations are:

M_t : Expected corporate income tax for the period,

T : Project life time,

t : Period of review: $t=1, T$,

r_1 : Discount rate for the State,

r_2 : Discount rate for a person under social effect,

L : Economic value of human life,

g_t : Unemployment benefit for the period.

Job Creation for Socially Unprotected Citizens

This type of social effect can be measured by the following formula:

$$NPV_{soc}^I = \sum_{t=1}^T \frac{M_t + k_t \times (g_t + V_t + 0,47 \times S_t)}{(1 + r_1)^t} + \sum_{t=1}^T \frac{K_t \times (0,87 S_t - g_t)}{(1 + r_2)^t} \quad (1)$$

Where, V_t : GDP per capita for the period,

S_t : average salary of a socially unprotected citizen at the enterprise for the period,

K_t : number of jobs created for socially unprotected citizens at the enterprise for the period.

Social Adaptation of Asocial or Potentially Asocial Citizens

The following method was designed to measure this type of social effect:

$$NPV_{soc}^{II} = \sum_{t=1}^T \frac{k_t \times q \times L}{(1 + r_2)^t} \quad (2)$$

Where, q : Probability that an asocial citizen will not be able to play in society,

K_t : Number of asocial citizens, who got assistance for the period.

Social Improvement in the Region

The following formula is introduced to measure this type of social effect:

$$NPV_{soc}^{III} = \sum_{t=1}^T \frac{k_t (p_m - p)}{(1 + r_2)^t} \quad (3)$$

Where, p_m : Market value of a product/service,

P : Bid preference (within the social entrepreneurship project),

k_t : Expected number of clients for the period.

Rehabilitation of Disabled People

This type of social effect can be measured by the following formula:

$$NPV_{soc}^{IV} = \sum_{t=1}^T \frac{k_t \times h \times L}{(1 + r_2)^t} \quad (4)$$

Where, h : Zero defect importance factor (in percentage of the economic value of human life,

k_t : Number of asocial citizens assisted for the period.

The NPV_{soc}^{III} indicator is expressed in money equivalent only for the social effect to be easier compared with returns, but it cannot be converted into real money. Therefore, such integral indicators (payback period, return on investment, internal rate of return etc.), characterizing only the financial indicators of a project should be calculated with respect to the NPV_{fin} and not NPV_{total} . Social entrepreneurship projects exist for the common weal sakes. They are entrepreneurship in type in order to be self-supporting, respectively. Social profitability, not the financial profitability, is maximized at the stage of choosing a project or other equals. This indicator can be considered as a function of social welfare production (R_{soc}).

$$R_{soc} = \frac{NPV_{soc}}{Investment} \quad (5)$$

Where: Investment stands for money invested into the project.

There is an evaluation option, where the investment stands for all the capital required for the project and invested by the investor and the founder together. In this case, we will get an indicator of social welfare production per unit of capital.

Methods for choosing social projects can be designed as one-criterion and two-criterion optimal choice problems, where: j is the project, $J=j_1$ and j_n is a set of all specified projects.

1. Maximizing the efficiency of social welfare production: $R_{soc}^i \rightarrow \max_j$
2. One-criterion selection by NPV:

$$NPV_{total}^i = NPV_{fin}^i + NPV_{soc}^i \rightarrow \max_j \quad (1.12)$$

3. Two-criteria selection by NPV:

$$\begin{cases} NPV_{fin}^i \\ NPV_{soc}^i \end{cases} \rightarrow \max \quad (1.13)$$

The introduced methods can be classified by the evaluation criteria, presented in Figure 1:

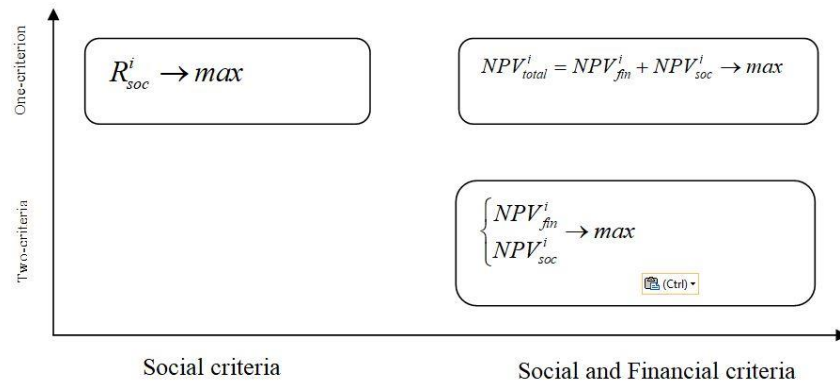


FIGURE 1
CLASSIFICATION OF METHODOLOGICAL TOOLS DESIGNED FOR THE SOCIAL PROJECT EFFICIENCY EVALUATION

The calculation of commercial effectiveness in the field of social entrepreneurship is proposed to be based on indicators generally applied to business. In previous paragraphs, it was established that social entrepreneurship differs from its traditional type only by orientation.

CONCLUSION

This article was devoted to the original notion of social entrepreneurship. It was determined that this is an activity performed by an entrepreneur at his/her own risk to solve social problems by selling business and reinvesting the profit.

This article has introduced a clarified mechanism of state regulation of commercial activities in the sphere of social entrepreneurship. At this point, the State acts as the subject of regulation, while the object covers the five main types of organizations, involved in social entrepreneurship: social business, traditional non-profit organizations, non-profit socially-oriented entrepreneurial companies, hybrid organizations and commercial socially-oriented entrepreneurial companies.

Based on the literature analysis, we have defined the concept of commercial activity, performed in the field of social entrepreneurship – this is a process of making a profit, reinvesting funds and allocating them to resolve socially significant problems.

We have considered the system of basic indicators applicable to social entrepreneurship efficiency and revealed that the main goal of related companies is to achieve the social effect: job creation for socially unprotected citizens, social adaptation of asocial citizens, social improvement in the region and rehabilitation of disabled people. This can be achieved by reinvesting the funds raised from commerce and by allocating them for the purpose of solving social problems.

The modern system of social entrepreneurship regulation implies a complex mechanism, each component of which executes certain functions, certain actions, aimed at ensuring fairness and harmony in the society. The activity of authorities is aimed at promoting the general interests of citizens.

It is important to note that self-regulation methods do not restrict the freedom of the economic activity implementation and suggest social and economic efficiency. At the same time, any state regulation tool blocks self-regulation tools.

As a result of the study, the author offers the following recommendations, stated below, on improving the tools of commercial business activity regulation in the area of social entrepreneurship on the territory of the region:

- The development and improvement of statutory instruments in the field of social entrepreneurship;
- The elaboration of forms of state-private partnership targeting at solving social issues;
- The formation of social entrepreneurship support infrastructure;
- The involvement of non-profit organizations and territorial public self-government into social entrepreneurship development;
- The organization of system scientific researches in the field of social entrepreneurship and scientific support for social entrepreneurship development;
- The training of qualified personnel for employment in the field of social entrepreneurship.

Through the measures offered in the frameworks of the social entrepreneurship development program, it is planned to enhance the economic competence of social entrepreneurs in the region, to increase the number of social enterprises, to establish social infrastructure, to

develop new types of state-private partnership aimed at dealing with social issues in the region, as well as to elaborate a comprehensive research of social entrepreneurship in the region.

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